E-002/CI-88-684DISALLOWING CERTAIN AMOUNTS IN TRACKER ACCOUNT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Barbara Beerhalter | Chair |
| Cynthia A. Kitlinski | Commissioner |
| Norma McKanna | Commissioner |
| Robert J. O'Keefe | Commissioner |
| Darrel L. Peterson | Commissioner |

In the Matter of Northern States Power Company Electric Utility's 1987-1988 Conservation Improvement Program Cost Recovery

ISSUE DATE: May 31, 1989

DOCKET NO. E-002/CI-88-684

ORDER DISALLOWING CERTAIN AMOUNTS IN TRACKER ACCOUNT

## PROCEDURAL HISTORY

On April 29, 1988, Northern States Power Company Electric Utility (NSP or the Company) filed its annual Conservation Improvement Program (CIP) in Docket No. E-002/M-88-253.

The Commission met on September 23, 1988 to consider NSP's 1988-1989 CIP proposal. The Commission became concerned that the Company was not complying with several of the budgets approved in the January 27, 1988 CIP Order.

On January 23, 1989, the Company responded to a Commission staff information request addressing four areas of NSP's program: General and Administrative Expenses, the Demand Side Management (DSM) Potential Study, complimentary Commercial and Industrial Audits performed in conjunction with the DSM Potential Study, and Residential Audit Services promotion costs.

The Department of Public Service (DPS or the Department) and the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments on the Company's response.

The Commission met on March 30, 1989 to consider this matter.

## FINDINGS AND CONCLUSIONS

The Commission must decide whether to allow certain expenditures in NSP's CIP Tracker Account.

Cost recovery is a major issue in conservation programs. The Commission encourages increasing conservation expenditures. However, under cost of service ratemaking, utilities are unable to recover increased conservation expenditures between rate cases when those expenditures are treated as normal test year expenses. To resolve the tension between expenditures and recovery, the Commission has allowed utilities to track conservation investments in an account referred to as a "tracker account".

A tracker account handles conservation expenses differently from other test year expenses. For the most part, companies with conservation tracker accounts are allowed dollar-for-dollar recovery of reasonable expenses incurred in pre-approved conservation programs.

The Commission has generally restricted review of a utility's conservation expenses to a general rate case. CIP expenses included in the test year income statement determine the conservation cost recovery charge (CCRC) which is the amount of conservation expenses a company is allowed to collect in its rates. Each year, revenues collected through the CCRC are balanced against actual expenditures and the amount which is over- or undercollected is placed in the deferred account. When the company files its next general rate case all conservation expenditures occurring since the last zeroing of the tracker account are examined. The debit or credit balance is adjusted for those amounts which the Commission determines have been inappropriately included in the tracker. The company is made whole on the remaining balance either by collecting the deficit through rates or refunding any overcollections to ratepayers.

This process works well when utilities follow the requirements of the Commission's CIP orders and implement projects which have received Commission approval prior to implementation. However, restricting review of expenditures to rate cases may not be adequate when Commission review of projects during the normal CIP process indicates that a company has not complied with previous Commission orders.

The Commission requires each company to file annual reports on its tracker which describe actual expenditures for programs. The Commission reviews these reports to ensure that expenditures are properly included and that any under- or overcollected balance does not become burdensome to ratepayers. In order to ensure that conservation projects are effective and that ratepayers receive full value for their payments through rates, it is essential that only expenditures for Commission-approved projects are included in the tracker.

Information provided by NSP demonstrates that the company has included expenditures in its tracker account for projects which did not receive prior approval from the Commission. The Commission finds that in this instance, it is not in the best interests of NSP or its ratepayers to defer consideration of the company's conservation expenses until it files a general rate case.

The Commission will address the four concerns it has with NSP's CIP tracker.

## General and Administrative Expenses

The Commission has long considered it important to assign all CIP costs to individual projects so that their cost-effectiveness can be accurately determined. In its last rate case, Docket No. E-002/GR-87-670, NSP was denied recovery of General and Administrative (G&A) expenses because the Commission had not approved a separate account for these costs.

For its 1987-1988 CIP the Company did not propose a separate account for its G&A expenses. Following Commission approval of its CIP, NSP assigned G&A costs to individual projects. Later, NSP found this to be administratively burdensome and returned to using a separate account for these expenses without receiving Commission approval to do so.

The Commission finds that the Company did not receive approval for a separate G&A expense account in its 1987-88 CIP. The Commission will disallow G&A costs of $543,195 for inclusion in the CIP tracker.

Demand Side Management (DSM) Potentials Study and Commercial and Industrial Audit Project

The Company spent $44,046 on the DSM Potentials Study prior to Commission approval. It also spent $569,733 on complimentary Commercial and Industrial (C&I) audits prior to receiving Commission approval to waive its normal audit fees. The Company estimates that $239,847 of that amount represents revenues it would have received had audit recipients been charged according to the C&I audit project approved by the Commission for the 1987-1988 CIP year. The Company believes that many of these audits would not have been performed had the customers been required to pay for them, but that the expenditures are justified as research costs.

The Commission has a long standing policy of requiring companies to seek Commission approval of CIP projects prior to their beginning. This allows the Commission to encourage conservation in an orderly and effective manner. The CIP process itself provides flexibility for companies and conservation services providers. The Commission may modify a company's CIP during a particular year if the company follows the procedures set forth in the Commission's CIP filing rules, Minn. Rules, Chap. 7840. NSP implemented these projects without Commission approval. The Company's premature implementation of these projects denied the Commission the opportunity to review the projects and require changes, if found to be necessary.

The Commission will deny inclusion in the CIP tracker of NSP's expenditures of $44,046 for the DSM Study and the forgone revenues of $239,847 from the complimentary C&I audits.

Residential Audit Services Promotion Costs

NSP replaced a mandated mailing advertising residential audits with a $568,376 multi-media advertising campaign to promote its residential audits; this cost $374,826 more than was approved for the promotion of the residential audits. The Company argued that this campaign was cost-effective but provided no support for that claim.

The Commission finds that the Company did not request Commission approval for a promotion campaign of this scope for the residential audit project and will deny inclusion of the amounts over the approved promotion budget in the NSP CIP tracker.

Finally, the decisions the Commission makes here are without prejudice to NSP which can raise these issues again in its next general rate case.

## ORDER

1. The Commission hereby disallows without prejudice the following amounts for inclusion in NSP Electric Utility's CIP tracker account:

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|---|---|
| 1. General and Administrative Costs | $ 543,195 |
| 2. DSM Study | 44,046 |
| 3. Lost Revenues on C & I Audits | 239,847 |
| 4. RCS Promotion Over Amount Approved | 374,826 |
| | $1,201,914 |

2. NSP shall, within 30 days from the date of this Order, refile its 1988 cost recovery report excluding the amounts denied herein.

3. In its next general rate case filing, NSP shall present a calculation of the over- or undercollection of CIP expenses excluding the amounts denied herein.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)